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R.I.T.E.S., INC.

Financial Statements

December 31, 2008

▪ Certified Public Accountants
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R.I.T.E.S., INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of R.I.T.E.S., Inc.

We have audited the accompanying statement of financial position of R.I.T.E.S., Inc. (a not-for-profit organization) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of R.I.T.E.S., Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2009, on our consideration of R.I.T.E.S., Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Peterson Allred Jackson

North Logan, Utah
June 22, 2009

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R.I.T.E.S., INC.
Statement of Financial Position

December 31

ASSETS

	<u>2008</u>
Current assets:	
Cash	\$ 44,522
Accounts receivable	53,299
Accounts receivable - related party	3,316
Client funds receivable	<u>402</u>
Total current assets	<u>101,539</u>
Noncurrent assets:	
Equipment	62,081
Accumulated depreciation	<u>(12,883)</u>
Total noncurrent assets	<u>49,198</u>
Total assets	<u><u>\$ 150,737</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 1,371
Accrued liabilities	25,326
Client funds payable	-
Capital lease payable, current portion	<u>212</u>
Total current liabilities	26,909
Capital lease payable, long-term portion	<u>2,138</u>
Total liabilities	29,047
Net assets:	
Unrestricted	121,690
Temporarily restricted	-
Permanently restricted	<u>-</u>
Total net assets	<u>121,690</u>
Total liabilities and net assets	<u><u>\$ 150,737</u></u>

R.I.T.E.S., INC.
Statement of Activities

Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>
Revenue and support:			
Program services revenue	\$ 698,795	\$ -	\$ 698,795
Interest income	119	-	119
Contribution revenue and other	11,747	-	11,747
 Total revenues and support	 710,661	 -	 710,661
 Expenses:			
Wages	469,308	-	469,308
Rent	34,847	-	34,847
Payroll taxes	36,621	-	36,621
Program expenses	7,736	-	7,736
Auto expense	31,722	-	31,722
Insurance	6,988	-	6,988
Training	21,207	-	21,207
Telephone	9,245	-	9,245
Utilities	5,433	-	5,433
Interest	460	-	460
Professional	12,425	-	12,425
Depreciation	10,810	-	10,810
Other	3,529	-	3,529
Net assets released from restriction:			
Restriction criteria met	-	-	-
 Total expenses	 650,331	 -	 650,331
 Change in net assets	 60,330	 -	 60,330
Net assets - beginning of year	61,360	-	61,360
Net assets - end of year	<u>\$ 121,690</u>	<u>\$ -</u>	<u>\$ 121,690</u>

R.I.T.E.S., INC.
Statement of Functional Expenses

Year Ended December 31, 2008

	<u>Program Services Expenses</u>	<u>Management and General</u>	<u>2008 Total</u>
Expenses:			
Wages	\$ 395,066	\$ 74,242	\$ 469,308
Rent	29,247	5,600	34,847
Payroll taxes	30,828	5,793	36,621
Program expenses	7,736	-	7,736
Auto expense	31,722	-	31,722
Insurance	6,500	488	6,988
Training	21,207	-	21,207
Telephone	5,328	3,917	9,245
Utilities	5,433	-	5,433
Interest	460	-	460
Professional	-	12,425	12,425
Depreciation	9,725	1,085	10,810
Other	-	3,529	3,529
	<u>-</u>	<u>3,529</u>	<u>3,529</u>
 Total expenses	 <u>\$ 543,252</u>	 <u>\$ 107,079</u>	 <u>\$ 650,331</u>

R.I.T.E.S., INC.
Statement of Cash Flows

Year Ended December 31

	<u>2008</u>
Cash flows from operating activities:	
Increase in net assets	\$ 60,330
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	10,810
Bad debt expense	59
(Increase) decrease from prior year in:	
Accounts receivable	17,306
Accounts receivable - related party	(766)
Client funds receivable	(67)
Increase (decrease) from prior year in:	
Accounts payable	78
Accrued liabilities	9,983
Client funds payable	(319)
Net cash provided by operating activities	<u>97,414</u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(53,356)</u>
Net cash used in operating activities	<u>(53,356)</u>
Net increase/(decrease) in cash	<u>44,058</u>
Cash at beginning of year	<u>464</u>
Cash at end of year	<u><u>\$ 44,522</u></u>
Supplemental disclosure of cash flow information:	
Interest paid	<u><u>\$ 460</u></u>
Income taxes paid	<u><u>\$ -</u></u>

Non-cash transaction

In 2008, RITES purchased a copier for \$2,350 through a capital lease.

R.I.T.E.S., INC.
Notes to Financial Statements

Year Ended December 31, 2008

1. ORGANIZATION AND NATURE OF ACTIVITIES

R.I.T.E.S., Inc. (the Organization) was incorporated in the State of Utah as a not-for-profit corporation on March 29, 2002. The Organization is exempt from federal income taxes in accordance with provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization was formed for the purposes of providing training and education to people with disabilities to help improve their quality of life. Substantially all of the Organization's revenues are for program services provided to the State of Utah Department of Human Services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below.

Basis of Presentation

The net assets of the Organization are reported as follows:

Unrestricted

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted

Temporarily restricted net assets include contributions of cash and other assets received with donor stipulations that limit the use of the donated assets. When a donor restriction expires or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets include funds that have been restricted by the donor to be held and invested in perpetuity.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Equipment

Equipment purchases are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives of five to seven years. Gains and losses from the sale or disposal of equipment are recorded in the Statement of Activities.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred.

Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Concentration of Credit Risk

The Organization maintains cash in bank deposit accounts which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of accounts receivable. In the normal course of activities, the Organization records receivables and promises of support. The Organization performs ongoing evaluations of its ability to collect receivables. Management has recognized all significant uncollectible receivables as bad debt and believes it is not exposed to any further significant credit risk.

3. EQUIPMENT, NET

Equipment consisted of the following at December 31:

	<u>2008</u>
Automotive equipment	\$ 53,998
Office equipment	5,622
Office furniture and fixtures	<u>2,461</u>
Subtotal property and equipment	62,081
Accumulated depreciation	<u>(12,883)</u>
Net equipment	<u>\$ 49,198</u>

4. RELATED PARTY TRANSACTIONS

The Organization advanced employees and officers funds that are classified as accounts receivable – related party.

5. RESTRICTED NET ASSETS

The organization did not have any temporarily or permanently restricted net assets as of December 31, 2008. All temporarily restricted net assets accumulated in previous years had been utilized during the year and released from restriction.

R.I.T.E.S., INC.
Notes to Financial Statements

Continued

6. LEASE OBLIGATIONS

The Organization leases equipment on a long-term lease, which is accounted for as capital lease.

Leased property under a capital lease at December 31, 2008 totaled \$2,350. Accumulated amortization on leased property was \$143.

At December 31, 2008, the future minimum lease payments net of interest under capital leases are as follows:

2009	\$	924
2010		924
2011		924
2012		924
2013		924
2014		77
		<hr/>
Total payments		4,697
Less amounts paid for interest		<hr/> (2,347)
Total lease obligation	\$	<hr/> <u>2,350</u>

The Organization leases multiple office spaces under operating leases with monthly payments starting at \$1,850. During 2008 the Company paid \$34,847 in rent expense, which included operating leases as well as month to month leases.

2009	\$	31,800
2010		34,600
2011		23,300
		<hr/>
Total operating lease obligation	\$	<hr/> <u>89,700</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
R.I.T.E.S., Inc.

We have audited the financial statements of R.I.T.E.S., Inc. (a nonprofit organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated June 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered R.I.T.E.S., Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the R.I.T.E.S., Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying management letter as finding 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether R.I.T.E.S., Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of R.I.T.E.S., Inc. in a separate letter dated June 22, 2009.

R.I.T.E.S., Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit R.I.T.E.S., Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Peterson and Jackson

North Logan, UT
June 22, 2009



Peterson
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Jackson

▪ Certified Public Accountants
Business Consultants

June 22, 2009

To the Board of Directors of
R.I.T.E.S., Inc.

In planning and performing our audit of the financial statements of R.I.T.E.S., Inc. (the Organization) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies listed as 2008-1 to be a significant deficiency in internal control.

2008 FINDING:

Finding 2008-1: Segregation of duties

We realize the size of your Organization, having two related full-time employees handling financial transactions with many duties, results in certain personnel restraints, which make it difficult for you to segregate certain duties. The basic premise is that no one employee should have both physical access to assets and the related accounting records or to all phases of a transaction.

We noted instances where office staff had access to assets, accounting records and authorization responsibilities. Specifically, for cash disbursements (cash disbursements and receipts include checks and credit cards) there were instances where the individual entering expenses into QuickBooks, signing checks and reconciling cash accounts were all the same individual or a combination of related parties. For cash receipts there were instances where the individual receiving, entering receipts into QuickBooks, making deposits and reconciling the cash account were the same individual.

Recommendation:

We noted changes implemented during the year to segregate as many duties as possible. However, due to the small size of the organization this will be a repeat finding until the organization can hire additional employees.

Management response:

Management agrees with the concept of segregation of duties. Due to limited personnel, this cannot be fully implemented at this time. However, in order to safeguard its assets, management will request the board of directors to closely oversee its duties. Also, if the organization grows it will strive to accomplish greater segregation of duties through the hiring of additional accounting personnel.

2007 FINDINGS:

Finding 2007-1: *Report submission*

The State of Utah requires that audited financial statements be submitted within six months after the end of the reporting year for required entities. The report was not completed within the required six months.

Recommendation:

We recommend that the organization complete all necessary documentation and reporting to insure that the report is completed within the six month deadline.

Management response:

Management agrees with the auditors' recommendation and will provide documentation in a timely manner in the future.

Status:

The 2008 report was completed within the state required timeline.

Finding 2007-2: *Audit adjustments/prior period adjustment*

Due to the increased regulation in U.S. accounting standards, we are required to report on instances where management or employees did not prevent or detect misstatements in a timely manner, in their normal course of assigned functions.

While conducting the audit we noted the need for adjustments to the financial statements. The adjustment was to accrue for prior period adjustments which were not previously recognized by the Organization. This adjustment was not originally identified by management and therefore represents a significant deficiency in preparation of financial statements that are correct in accordance with US Generally Accepted Accounting Principles.

Recommendation:

We recommend that prior to audit fieldwork you review and adjust for such transactions to ensure the current year organizational financial statements reflect the correct year end balances and all adjustments have been made prior to the audit.

Management response:

Management agrees with the auditors' recommendation and will retain the services of an independent accounting firm to assist in calculating correct year end balances.

Status:

The Organization made all significant adjusting entries prior to the start of the audit.

Finding 2007-3: Segregation of duties

We realize the size of your Organization, having two full-time employees handling financial transactions with many duties, results in certain personnel restraints, which make it difficult for you to segregate certain duties. However, even though these restraints exist we feel certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have both physical access to assets and the related accounting records or to all phases of a transaction.

We noted instances where office staff had access to assets, accounting records and authorization responsibilities. Specifically, for cash disbursements (cash disbursements and receipts include checks and credit cards) there were instances where the individual authorizing, entering expenses into QuickBooks, signing checks and reconciling cash accounts were all the same individual or a combination of related parties. For cash receipts there were instances where the individual receiving, entering receipts into QuickBooks, making deposits and reconciling the cash account were the same individual.

Recommendation:

Since cash and cash equivalents are the organization's most critical asset we recommend the organization implement segregation of duty responsibilities in the cash receipts and cash disbursements cycles. We recommend the Organization evaluate areas that better segregation of duties can occur with the existing staff that they employ.

Management response:

Management agrees with the concept of segregation of duties. Due to limited personnel, this cannot be fully implemented at this time. However, in order to safeguard its assets, management will request the board of directors to closely oversee its duties. Also, if the organization grows it will strive to accomplish greater segregation of duties through the hiring of additional accounting personnel.

Status:

Due to the small size of the organization, this continues to be an issue.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve R.I.T.E.S., Inc. as independent auditors.

Very truly yours,



Diana Cannell, CPA
PETERSON ALLRED JACKSON